

CLIMBER Fund Product Design Presentation

October 22, 2020

Proposed CLIMBER FUND Products

CLIMBER Product Type	Lender Type	Program Structure and Rules	Meets CLIMBER Loan Terms
Direct Lending Capital	Non-Depository CDFIs & Non-profit Lender	<ul style="list-style-type: none"> • Lending capital in the form of low interest loan @2% to originator • Can fund up to 100% of originated loans • Lender has to pay at least 80% of capital back to CLIMBER • Lender can charge borrower paid fees of .5 to 1% • If lender returns more than 80% of the capital they keep half the difference over 80% • Need for fund paid fee of 5% or higher to underserved businesses[looking to find source of capital] 	Yes
CLIMBER Credit Enhancement	Bank/Credit Union CDFI & Non-profit Lender	<ul style="list-style-type: none"> • 10 to 15 percent pooled loan loss reserve contribution (bonus for loans to underserved demographics) or up to 20% dedicated collateral, no borrower fee • Accessible after lender undertakes collection activity • CLIMBER Fund deposits are interest free but must be paid back to state at the end of the CLIMBER Program 	Yes
Loan Participation	Bank/Credit Union CDFI & Non-profit Lender	<ul style="list-style-type: none"> • Fund will purchase 80% of loans originated by lender • No borrower fees • Lender can charge interest rate of 4.25 to 6.5% to borrower on retained share of loan • Purchased part of loan must be pari passu with retained loan regarding collateral • The originator retained portion of CLIMBER Loans which are participated can also use CLIMBER Credit Enhancements if the loans are to targeted segments [legal advice] 	Yes

Proposed CLIMBER FUND Interest Rates and Fees for CLIMBER Compliant Loans

Reference point: *Wall Street Journal Prime Rate* was 3.25% as of 8/21/20

	Loan Term			
Fixed Borrower Interest Rates by Product	1-2 year or Revolve	3 year	4 year	5 year
Direct Lending Capital	3.45%	3.60%	3.75%	3.90%
CLIMBER Credit Enhancement	2.45%	2.60%	2.75%	2.90%
Blended Borrower Rate on 80% Participated Loan	2.45%	2.60%	2.75%	2.90%

	Loan Term			
Borrower Origination Fees Paid to Lender	1-2/r year	3 year	4 year	5 year
Direct Lending Capital	.5%	.75%	1%	1%
CLIMBER Credit Enhancement	0%	0%	0%	0%
Loan Participation	0%	0%	0%	0%

	Loan Term			
APR by Borrower	1-2/r year	3 year	4 year	5 year
Direct Lending Capital (DLC)	3.94%	4.10%	4.26%	4.31%
CLIMBER Credit Enhancement (CLCE)	2.45%	2.60%	2.75%	2.90%
Loan Participation (LP)	2.45%	2.60%	2.75%	2.90%

Proposed CLIMBER FUND Loan Terms

Term Name	Summary	Details/Notes	
Loan Amount	\$30,000 to \$500,000	Recommend keeping full statutory range	
Length of Term	Revolving/1 to 5 years	Up to lender to decide	
Use of Funds/Definition of Working Capital		Legal advice	
Payment Frequency	Monthly		
Payment Deferment	Up to 1 year on principal and interest	3 months automatic deferral of principal at borrower discretion Lender can offer up to 6 months deferral of principal Need approval from CHFA to go beyond 6 month deferral of principal	
Amortization	<u>Full level to 20% balloon</u>	<u>Need approval from CHFA to not fully amortize</u>	
Borrower APR	2.45 to 4.31%	Fixed but varies with length of term and product	
Prepayment Penalty	None		
Borrower Origination Fee Paid to Lender	0% to 1% (deducted from loan disbursement)	Varies with product type and term of loan	
Ability to Refinance Existing Debt	Yes (minimum 66/34 ratio of new to refinanced debt) 50/50 with approval	CLIMBER loans must be pari passu with original collateral and or guarantee and (need approval from CHFA for 50/50)	
Collateral	To be proposed by lender	Need approval from CHFA if no collateral	
Default interest rate	To be proposed by lender	Need approval from CHFA if no collateral	

Rules for Refinancing Existing Debt

Lenders Refinance Their Own Debt Using CLIMBER Loans **[[need legal opinion re working capital]]**

- Without CHFA's approval lenders must provide at least \$2 dollars of new loans for every \$1 refinanced
- With CHFA's approval lenders can provide \$1 dollar of new loans for every \$1 refinanced
- New debt must be pari passu with original collateral and or guarantee
- The refinanced loan can have multiple facilities: for example an existing line of credit can be refinanced into a term loan and a new line of credit established
- Lenders can only use the credit enhancement product to refinance debt because it means that the lender will be predominantly using its own capital.

Lenders Refinance Another Lenders Debt **[consider Doug opinion on loans from other lenders]**

- As long as the CLIMBER loan is at least 3% lower APR than the existing loan, the lender can provide \$1 of new credit for every \$1 refinanced otherwise they must provide at least \$2 new for every dollar which is refinanced
- CLIMBER loan term must be at least as long as the remaining term on the refinanced debt
- Lenders can only use the credit enhancement product to refinance debt because it means that the lender will be predominantly using its own capital.

Direct Lending Capital

- Who Can Use This Option: Non-Depository CDFIs and Non-Profit Lenders
- How It Works:
 - CLIMBER provides lending capital in the form of low interest loan @2% to originator
 - Can fund up to 100% of originated loans
 - Lender has to pay 80% of capital back to CLIMBER, depending on losses, plus interest on full principal
 - If lender can return more than 80% of the capital they keep half the difference over 80%
 - Lender can charge origination fees (deducted from loan disbursement) per schedule on other slides
 - Need for fund-paid fee of 5% to lender (should we pay a higher fee to underserved businesses***?[[Need legal advice]]) [looking to find source of capital]
- What it Addresses for Lenders:
 - Lack of capital/liquidity to make new loans by directly funding the loans
 - Credit risk by allowing non-profit lenders to not be obligated to pay back full loan to fund
 - Loan margin by allowing larger fees and higher APRs

***Underserved demographics include rural or minority, women, veteran-owned businesses and businesses located in low to moderate income communities or economically distressed or underserved non-metropolitan areas.

CLIMBER Credit Enhancement

- Who Can Use this Option: CDFA, Non-Profit Lenders, Banks, Credit Unions
- How It Works:
 - CLIMBER provides 15 to 20% contribution, (per table in next slide)
 - Contribution can be used either as pooled loan loss reserve or dedicated cash collateral at lender's choice
 - Lender can mix and match and choose different option for each CLIMBER Loan
 - CLIMBER contribution available to lender after lender undertakes collection activity
 - CLIMBER contribution is interest free but unused amount must be paid back to state at program end
 - Only CLIMBER loans can be registered for CLIMBER Credit Enhancement (CLCE) but CLIMBER loans can also leverage the existing Colorado Credit Reserve (CCR) pools as a secondary reserve
 - The originator retained portion of CLIMBER loans that are participated can also be registered against CLCE per table below
 - What it Addresses for Lenders:
 - Credit risk by providing pooled loan loss reserve
 - Provides extra risk capital to absorb loan losses so should make regulators more comfortable

Anti-Abuse Provisions

- Lender must certify that it would not have made this loan at the terms being offered without the credit enhancement and explain why using its underwriting and interest rate policy.
- CHFA must review and approve lender explanation
- The program may be curtailed if CHFA determines it is not driving loans that would not otherwise be made.

CLIMBER Credit Enhancement Contribution Table

Loan Size	\$30,000 to \$74,999	\$75,000 to \$249,999	\$250,000 to \$500,000
Standard Contribution to Pooled Loan Loss Reserve (PLLR) (loan <u>is not</u> to underserved demographic)	10% (~\$2,000)	10% (3%)	10% (\$7,500)
Max Contribution to PLLR (Loan <u>is to</u> underserved demographic)***###	15%	15%	15%
CLIMBER Contribution for Dedicated Cash Collateral	Up to 20% depending on shortfall Size (case by case basis)		
CLIMBER Contribution for retained portion of participated Loan (either Pooled LLR or Dedicated CC) only for loans to underserved demographics as defined below [[need legal advice]]***	8%	8%	8%

***Underserved demographics include rural or minority, women, veteran-owned businesses and businesses located in low to moderate income communities or economically distressed or underserved non-metropolitan areas. ###For each underserved demographic a borrower belongs to up to two categories the PLLR gets an extra 2.5% contribution up to a maximum extra of 5% or 15% total. Example a veteran and minority owned business gets 15%.

Loan Participation

- Who Can Use this Option: CDFA, Non-Profit Lenders, Banks, Credit Unions
- How It Works:
 - CLIMBER Fund will purchase 80% of loans originated by lender
 - Lender can charge higher interest rate to borrower (per schedule above) on its retained share of loan
 - Purchased part of loan must be pari passu with retained loan regarding collateral/guarantees
 - The originator retained portion of CLIMBER loans that are participated can also be registered against CLIMBER Credit Enhancement
- What it Addresses for Lenders:
 - Lack of capital/liquidity by purchasing a big portion of lender originated loans
 - Credit risk by allowing lenders to sell off some portion of loan and using CLCR to create pooled loan loss reserve for un-participated portion
 - Loan margin by allowing origination fees and the lender to charge higher interest in the unsold portion of the loan

Interest Rates and APR by Product Types

		Number of Years in Loan Term			
		2	3	4	5
	Rate to Fund Plus CHFA (2%)	2.00%	2.00%	2.00%	2.00%
Loan Participation	Rate Paid to Lender	4.25%	5.00%	5.75%	6.50%
	Blended Borrower Rate 80% Participation	2.45%	2.60%	2.75%	2.90%
	Allowed Lender Origination Fee	0.00%	0.00%	0.00%	0.00%
	Loan Amount	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
	Final Outstanding Balance	\$ -	\$ -	\$ -	\$ -
	Monthly Payments	(\$1,282.15)	(\$867.16)	(\$660.72)	(\$537.73)
	Borrower APR	2.45%	2.60%	2.75%	2.90%
Direct Lending Capital	Borrower Interest Rate	3.45%	3.60%	3.75%	3.90%
	Allowed Lender Origination Fee	0.50%	0.75%	1.00%	1.00%
	Loan Amount	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
	Final Outstanding Balance	\$ -	\$ -	\$ -	\$ -
	Monthly Payments	(\$1,295.42)	(\$880.39)	(\$674.02)	(\$551.14)
	Borrower APR	3.94%	4.10%	4.26%	4.31%
CLIMBER Credit Enhancement	Borrower Interest Rate	2.45%	2.60%	2.75%	2.90%
	Allowed Lender Origination Fee	0.00%	0.00%	0.00%	0.00%
	Loan Amount	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
	Final Outstanding Balance	\$ -	\$ -	\$ -	\$ -
	Monthly Payments	(\$1,282.15)	(\$867.16)	(\$660.72)	(\$537.73)
	Borrower APR	2.45%	2.60%	2.75%	2.90%